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RUEHBO/AMEMBASSY BOGOTA 7267
RUEHBR/AMEMBASSY BRASILIA 5890
RUEHBU/AMEMBASSY BUENOS AIRES 1572
RUEHLP/AMEMBASSY LA PAZ 2471
RUEHPE/AMEMBASSY LIMA 0740
RUEHNY/AMEMBASSY OSLO 0099
RUEHSP/AMEMBASSY PORT OF SPAIN 3356
RUEHQT/AMEMBASSY QUITO 2573
RUEHSG/AMEMBASSY SANTIAGO 3891
RUEHDG/AMEMBASSY SANTO DOMINGO 0401
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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 000472

SIPDIS

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

E.O. 12958: DECL: 01/12/2017
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)
SUBJECT: STATOIL: VERY ANNOYED VIKINGS

REF: A. CARACAS 426
[1](#)B. CARACAS 102

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#)1. (C) SUMMARY: According to Statoil, the three key issues in the strategic association migrations are compensation, governance, and taxes. Statoil believes it has six months to negotiate the terms of the migration. Financing arrangements will not be a serious issue. Senior BRV energy officials are increasingly concerned over a possible departure by ExxonMobil. Statoil does not believe that President Chavez is aware of the gravity of the situation. Sincor has not been asked to upgrade outside crude oil. END SUMMARY

ANGRY VIKINGS

[1](#)2. (C) Petroleum Attache (Petatt) met with Statoil Venezuela President Thore Kristiansen (strictly protect throughout) on March 5 to discuss the strategic association migration negotiations. Statoil has a 15% stake in the Sincor strategic association. Kristiansen began the conversation by referring to the oil nationalization decree as an expropriation decree. He specifically referred to articles 7, 8, and 9 as amounting to expropriation terms (Reftel A). He also stated the articles were unnecessary.

[1](#)3. (C) When asked what the key issues were in the migration negotiations, Kristiansen stated that aside from the obvious one of compensation for lost value, the key issues were the governance structure of the new joint ventures and tax issues. He stated governance issues covered far more than just operational control. For example, Sincor revenues currently flow automatically into three accounts in a transparent manner. However, if revenues disappeared into PDVSA prior to disbursement to the other joint venture partners, it would have an adverse effect on future financing

for the projects, due to PDVSA's lack of transparency.

14. (C) Kristiansen also advised Petatt that tax issues should be on the USG's radar screen. He stated he recently met with BRV tax authorities to discuss Statoil's back taxes arising from Sincor's 2002 to 2006 operations. According to Kristiansen, he forcefully told the tax officials that Statoil would pay all of the taxes that it owed under Venezuelan law but that the authorities had to have a legal basis for calculating the taxes. "Economic or financial policies" were not an adequate basis for determining tax bills. Kristiansen said the tax authorities were supposed to reach agreements with each of the six international oil companies (IOC) that are partners in the strategic associations well before the May 1 deadline.

15. (C) Kristiansen also claimed that the six IOCs have six months to negotiate the terms of the migration under the nationalization decree. As reported in Reftel A, the decree states in Article 4 that the parties have four months starting on February 26 to "reach agreement on the terms and conditions of their possible participation in the new joint ventures." It goes on to state that there is an additional two month period to submit the terms to the National Assembly for authorization. Although he did not give the basis for his interpretation, Kristiansen firmly believed that the parties would be able to continue negotiating during the two month period. (COMMENT: As we noted in Reftel A, we find it hard to believe that the companies will have much of an opportunity to negotiate after the BRV takes control of the four Faja projects on May 1. END COMMENT)

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FINANCING IS NOT AN ISSUE

16. (C) When Petatt asked if the individual financing arrangements for each association would prove to be major obstacles for the BRV, Kristiansen replied that they would only be a minor problem. He stated Sincor's financing is provided by a syndicate of 32 banks. He believed only a handful of the banks would balk at changing the terms of the loan. Kristiansen opined that there is so much liquidity in the financial markets that financial institutions are more than willing to be flexible. For example, the banks did not complain about the way Venezuela's OPEC cuts have come from the strategic associations, despite the fact that the way the cuts have been applied clearly violates the associations' contracts. He noted the associations are generating huge sums of cash, so the banks are not concerned about their ability to make payments. Due to the lack of investment opportunities globally as well as the size of the cash flows, commercial and investment banks have very little incentive to play hardball with the BRV and PDVSA.

17. (C) To illustrate his point, Kristiansen pointed out that Sincor was in default for a period of six months last year. To his surprise, the banks did not say a word. Statoil actually had to alert the banks to the situation. Kristiansen said he was amazed to discover that the banks were so bureaucratic and slow that they did not even realize that Sincor was in default. During the six month period, Sincor generated enough money to pay off all of the banks in full.

AFRAID OF TIGERS

18. (C) Kristiansen stated BRV and PDVSA officials are "scared" that ExxonMobil will refuse to migrate their stake in the Cerro Negro association to a joint venture. Since Cerro Negro, unlike the other associations, is operated entirely by an ExxonMobil subsidiary, there are no PDVSA employees who are familiar with its operations. If ExxonMobil pulls out of Venezuela, Cerro Negro would not be able to upgrade any crude oil until PDVSA found another

partner.

19. (C) Kristiansen believes the BRV and PDVSA senior officials have not informed President Chavez of the gravity of the situation. They have basically bet that ExxonMobil will agree to the terms of the migration. If they do not and Cerro Negro's upgrader ceases operation, Venezuela will be humiliated internationally. Kristiansen believes President Chavez will take strong measures against a number of senior officials if Cerro Negro's upgrading operations grind to a halt.

CRUDE FROM THE OUTSIDE

10. (C) When Petatt raised the subject of OPEC cuts and upgrader capacity, Kristiansen stated Sincor is not using any of its spare capacity. When asked if there had been any talk of the upgraders processing outside crude, Kristiansen replied that Sincor had not been approached, as ConocoPhillips had been. As reported in Reftel B, there were indications that PDVSA planned to process Cuban or Iranian crude in the Petrozuata upgrader, which is operated by ConocoPhillips. Kristiansen stated the reason why the issue was not raised with Sincor may be because of technical difficulties. Sincor, due to the nature of its operations, can only process certain types of crude.

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